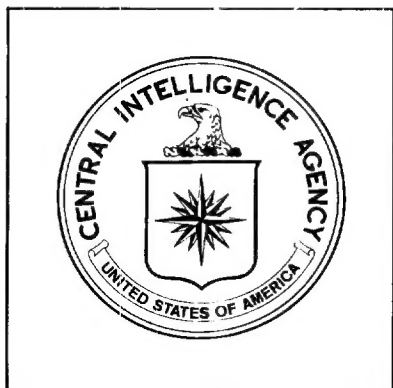


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

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Icelandic Workers Issue Strike Threat

The Icelandic Federation of Labor has threatened to begin a general strike if a new wage settlement is not reached by June 11.

Labor and management negotiators have been meeting for the last two weeks in an effort to hammer out an agreement to replace the current temporary settlement which expires on June 1.

The temporary wage settlement, which was signed last March, averted a general strike set for April 7. The IFL threatened the strike then because negotiations to reach a long term contract were making little progress and because it believed that proposed government remedies to ease the country's economic troubles were not tough enough.

Labor's attitude has hardened since the temporary agreement was reached. A list of labor's demands for the new agreement includes a 38 or 39 percent wage increase and restoration of the wage-price link. The government insists that the economy cannot tolerate such demands. (Confidential No Foreign Dissem)

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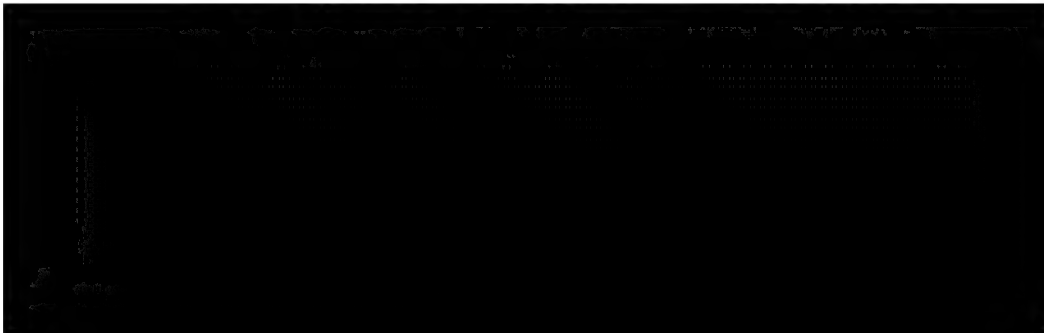
Finnish Government to Resign Soon

1+2 | Members of Finland's four party coalition government will ask President Kekkonen on May 29 or 30 to dissolve parliament and call elections.

1 | If Kekkonen dissolves parliament in May, August elections will follow. Kekkonen is more likely to wait until June, however, with elections scheduled for September.

1+3 | This scenario will allow more time for parliament to finish work on current legislation that Kekkonen is anxious to see passed. In addition, the summer vacation exodus may be another reason for Kekkonen to prefer September elections.

1+3 | Kekkonen also would like to avoid conducting an election campaign while Helsinki is hosting the European security conference summit later this year. The date of the summit continues to slide, however, and Kekkonen may have decided that the summit is not likely to be complicated by September elections. (Confidential)



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Spain Reacts to Basque Terrorism

Continuing unrest in the Basque provinces has triggered tougher countermeasures by the government and reinforced demands by the right wing for the removal of Prime Minister Arias.

Last week the government ordered a domestic news blackout on all but official reporting from the two Basque provinces where a state of emergency was imposed last month. The ban followed reports of widespread arrests and mistreatment of political suspects, and was intended to prevent anti-regime elements from exploiting the government's problems with the Basques.

Right-wing vigilante groups continue to harass supporters of the Basque cause in the northern provinces with sporadic attacks on persons and property. Right-wing opposition actions spread to Madrid last week where a memorial mass for victims of Basque terrorism--including several policemen--concluded with a march to police headquarters to express disapproval of Prime Minister Arias' handling of Basque unrest and his alleged tolerance of Basque separatist activities. Leaflets urging Arias to step down were circulated, including one alluding to President Ford's visit to Madrid this week-end that said that Spain should have a leader representative of the people who would "defend the bases." The police made no effort to halt the demonstration and some even saluted during the singing of the Falangist hymn.

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1 The right is trying to exploit popular revulsion to the killing of policemen to further its goal of ousting the prime minister who is identified with the drive to liberalize the political system. The rightists are not likely to succeed in having Arias removed now but they probably believe that they can induce Prince Juan Carlos to choose another prime minister when he succeeds Franco.

2 Meanwhile, the lines are being drawn on the issue of public order. The commanding general of the sixth military region, during a visit to security forces in the Basque area, told the police that the army is behind them even if its mission is not to maintain public order. The Spanish Bishops' Conference, on the other hand, has issued a statement repudiating violence in terms that make it clear that violence even in the name of public order is unacceptable. (Confidential)



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NATO Defense Ministers Oppose Link
to Spain

The Spanish press has played the decision taken by NATO defense ministers last week to include a reference to the US-Spanish defense arrangements in the final communique in a favorable light, but Madrid is upset with the unfavorable reaction this decision is receiving elsewhere in Europe.

2 +
3

The Spanish foreign ministry official in charge of base negotiations with the US has noted that foreign press accounts of the meeting were having a "very negative effect" on Spanish public opinion. He believes it could pose additional problems in the negotiations for a new agreement.

2 +
3

The thirteen ministers agreed only reluctantly at their annual spring meeting to take note of the US presentation on Spain--the first time Spain has ever been mentioned in a NATO communique. The Europeans generally understand the problems facing the US in bilateral negotiations with Spain over base rights, but are strongly opposed to a direct link between Spain and NATO.

1 + 3

Formal recognition of Spain's contribution to the defense of Western Europe was rejected outright by most of the European ministers. Their opposition reflected concern that a reference to Spain could:

1 +
3

--give rise to serious domestic political repercussions, threatening public support for NATO in Europe,

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- 1<1
3
- be misinterpreted as a gesture of support for Franco,
 - prove counterproductive in a post-Franco Spain, and
 - entail a further deterioration in relations with Portugal.

Denmark, Norway and the Netherlands, in particular, opposed any mention of Spain in the communique. (Confidential No Foreign Dissem)

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